

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY :

Petition for expedited approval of implementation of  
a market-based alternative tariff, to become effective  
on or before May 1, 2000, pursuant to Article IX and  
Section 16-112 of the Public Utilities Act. :

No. 00-0259

(Cons.)

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY :  
UNION ELECTRIC COMPANY :

Petition for approval of revisions to market value  
tariff, Rider MV. :

No. 00-0395

ILLINOIS POWER COMPANY :

Proposed new Rider MVI and revisions to Rider TC. :

No. 00-0461

REPLY TESTIMONY OF IIEC WITNESS LINDA E. BOWYER

OFFICIAL FILE

ILL. C. C. FILE NO. 00-0259/0395/0461

IIEC 1.0 On Reopening

Witness \_\_\_\_\_

Date 2-27-01 Reporter CB

1    **REPLY TESTIMONY OF LINDA E. BOWYER ON REOPENING**

2    Q. Please state your name and business address

3

4    A. My name is Linda E. Bowyer. My business address is 149 Partridge Lane,

5    Perrysburg, OH 43551

6

7    Q. Are you the same Dr. Bowyer that previously testified in this<sup>4</sup> proceeding on behalf of  
8    the Illinois Industrial Energy Consumers?

9

10    A. Yes.

11

12    Q. What is the purpose of your testimony?

13

14    A. The purpose of my testimony is to address concerns about the removal of the Into  
15    ComEd screen from Bloomberg PowerMatch and reply to the testimony of Mr. David  
16    Nichols of Commonwealth Edison Company ("ComEd") and Mr. Phillip Breezeel of  
17    Illinois Power Company ("IP").

18

19    Q. What are your concerns relative to the loss of the Into ComEd screen on Bloomberg?

20

21    A. In their MVI methodologies, ComEd and IP used data from both Altrade and  
22    Bloomberg data in the calculation of the MVI. As mentioned in the IIEC motion to  
23    reopen this proceeding, data from Bloomberg provided almost 50% of the data used in

24 the calculation of the MVI for ComEd. In my direct testimony of August 2000 in these  
25 consolidated dockets, I expressed concern about the lack of transparency and liquidity in  
26 these markets, a concern shared by other witnesses as well. The loss of fifty percent of  
27 the data from markets that already have liquidity problems to begin with amplifies this  
28 concern. The loss of the Into ComEd screen on Bloomberg also has implications for the  
29 potential manipulation of the market.

30

31 Q. How does the loss of the Into ComEd screen on Bloomberg impact potential market  
32 manipulation?

33

34 A. Under the ComEd MVI proposal, a utility or other party interested in manipulating  
35 the market value would be required to post bids and offers on screens in two separate  
36 markets, Altrade and Bloomberg. With the demise of the Into ComEd screen on  
37 Bloomberg, the number of markets to be manipulated is reduced to only one, increasing  
38 the ease and likelihood of such manipulation.

39

40 Q. Do you have any other concerns about the loss of the Bloomberg Into ComEd screen?

41

42 A. As discussed in the August 29, 2000 direct testimony of IIEC witness Mr. Robert  
43 Stephens in these consolidated dockets, the Altrade and Bloomberg markets represent one  
44 segment of the overall market for power – the on-peak monthly forward market for  
45 wholesale power. Many other markets exist as well, both retail and wholesale. The  
46 proposed ComEd MVI methodology relies on this narrowly defined market segment for

the determination of market value. Loss of one half of the data from an already narrow market definition is a cause for concern.

Q. Are there other market alternatives available for the Into ComEd market?

A. It is unclear from the testimony of Messrs. Nichols and Breezeel that any of the markets mentioned in their testimonies include trading of an Into ComEd forward contract. As mentioned by both Messrs. Nichols and Breezeel, new markets for power on the Internet have sprung up in recent months. However, no testimony or evidence, other than subjective opinion or anecdotal observation, has been provided by either witness as of this date that documents the liquidity and transparency of these new markets. Before a market is incorporated into an MVI calculation, meaningful standards for access and liquidity should be met. Given that such standards have not been delineated by the utilities in their filings, it falls on the Commission and its Staff, in cooperation with interested parties, to develop such standards. In my opinion, the recommendation of Mr. Breezeel to add the Intercontinental Exchange (ICE) to the list of sources of market data is premature.

Q. Why is the addition of the ICE to the list of sources of market data premature?

A. In the first MVI proposals in 1999, the utilities proposed using the NYMEX Into Cinergy futures market as the data source. Since that time, the volume on the NYMEX market for electricity has dropped dramatically. The examination of daily quote screens

70 from the NYMEX web site show this almost total deterioration in volume in the Into  
71 Cinergy NYMEX futures market. In just the last year, since proposing the use the  
72 Bloomberg data for Into ComEd, we have seen the demise of that data source. Therefore,  
73 it cannot be assumed that any new electronic market, such as ICE, is a mature and  
74 sustainable market.

75  
76 Mr. Nichols, in his testimony on reopening, states, "At the time we proposed using  
77 Altrade and Bloomberg it was unclear how each exchange would develop". His  
78 observation is equally applicable to ICE. Without careful analysis of the ICE, how can  
79 we be sure we are not heading down the same road -- developing a methodology around a  
80 market that may not exist in a few months? It is important for power customers in  
81 Illinois to know what markets are being used for this calculation, and that there is a  
82 careful review of the long-term viability of a market before it is added to the list of data  
83 sources.

84  
85 Q. Does the death of the NYMEX Into Cinergy futures and the loss of the Into ComEd  
86 screen on Bloomberg say anything about the appropriateness of using electronic  
87 exchanges at this time for determination of the market value of power and energy in  
88 Illinois?

89  
90 A. Yes, it is an indication that it is premature to use electronic exchanges to determine  
91 market value at this time. Accordingly, I disagree with Mr. Nichols' belief that electronic  
92 exchanges, in this instance, provide for a transparent and unbiased view of the market.

93

94 Q. What is your recommendation for dealing with the loss of the Into ComEd screen  
95 from Bloomberg?

96

97 A. The loss of the Bloomberg Into ComEd screen reinforces my original concerns about  
98 the use of electronic exchanges with limited liquidity and questionable transparency for  
99 the determination of the market value of power. The lack of long-term sustainability of  
100 these electronic exchanges heightens these concerns. However, if the Commission  
101 concludes that it wishes to adopt the basic MVI methodology proposed by the utilities,  
102 the best solution would be to adopt the Into Cinergy market as a replacement for the Into  
103 ComEd market. The lack of transparency and access of the Altrade market is still a  
104 significant concern but there does appear to be more trading volume on Into Cinergy than  
105 exists on the Into ComEd market. This helps to reduce the likelihood of manipulation by  
106 any party.

107

108 The Commission should require the utilities to work with the Staff and other interested  
109 parties to identify standards for inclusion of new data sources in the MVI calculation.  
110 These standards may include: volume, access to market information by outside parties,  
111 number of unrelated participants in the market, regulatory oversight, relevance to the  
112 Illinois market, and financial stability of the exchange. This is not an all-inclusive list but  
113 merely some of the market characteristics that merit further study. The decision-making  
114 process to include a new market should not be left to utility alone, without significant

115 investigation into the quality and longevity of the additional market to be used as a data  
116 source.

117

118 Q. Does this conclude your testimony?

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120 A. Yes, it does.

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STATE OF OHIO

COUNTY OF Lucas

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: SS  
:

AFFIDAVIT

Dr. Linda E. Bowyer, Affiant being duly sworn, does depose and state as follows:

1. Affiant is an Associate Professor of Finance and Director of the Small Business and Entrepreneurship at the University of Toledo, Toledo, Ohio. Affiant has prepared and on February 16, 2001 filed testimony on reopening in the above entitled matter on behalf of the Illinois Industrial Energy Consumers. The testimony consists of six (6) pages of questions and answers identified as IIEC Exhibit 1 on Reopening.

2. The statements contained in the aforesaid testimony, filed by the Affiant in this proceeding on reopening are true and correct.

3. Further Affiant sayeth not.

Linda E. Bowyer  
Linda E. Bowyer

SUBSCRIBED AND SWORN TO before me, a Notary Public, on this 26<sup>th</sup> day of February,  
2001.



SANDRA L. WHITMAN  
Notary Public, State of Ohio  
Commission Expires 2-24-05

Sandra L. Whitman  
NOTARY PUBLIC/30479.1